Financial Statements and Independent Auditor's Report

"EVOCABANK" CLOSED JOINT STOCK COMPANY

31 December 2022

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Independent auditor's report

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To the shareholders of "EVOCABANK" CLOSED JOINT STOCK COMPANY:

Opinion

We have audited the financial statements of "EVOCABANK" CLOSED JOINT STOCK COMPANY (the "Bank"), which comprise the statement of financial position as of 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2022 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

- *Allowance for expected credit loss*

Refer to note 4.4 of the financial statements for a description of the accounting policies and to note 37.1 for an analysis of credit risk.

Expected credit loss allowance was considered as a key audit matter due to significance of loans to customers as well as the subjectivity of assumptions underlying the impairment assessment. Applying different judgments and assumptions can lead to significantly different results of the expected credit loss allowance, which may have a material effect on the Bank's financial results.

Key areas of judgment included the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model, the identification of exposures with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors and the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.

With respect to impairment methodology, our audit procedures comprised the following:

- We read the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9.
- We assessed the design and tested the operating effectiveness of relevant controls over the data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model.
- We assessed the design and tested the operating effectiveness of relevant controls over the expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy.
- We checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages.
- For a sample of risk exposures, we checked the appropriateness of the Bank's staging.
- We assessed and tested the material modeling assumptions as well as overlays with a focus on the key modeling assumptions adopted by the Bank and sensitivity of the provisions to changes in modeling assumptions.
- For forward looking assumptions used by the Bank's management in its expected credit loss calculations, we held discussions with management and corroborated the assumptions using publicly available information.
- We examined a sample of risk exposures and performed procedures to evaluate the timely identification of exposures with a significant deterioration in credit quality and expected loss calculation for exposures assessed on an individual basis.
- We checked the completeness of loans and advances, off-balance sheet items, investment securities, placements and other financial assets included in calculation of allowances for expected credit loss as of 31 December 2022. We understood the theoretical soundness and tested the mathematical integrity of the models applied.
- For data from external sources, we understood the process of choosing such data, its relevance for the Bank, and the controls and governance over such data;
- We involved our IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model).
- We assessed the accuracy of the disclosures in the financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report of the Bank for the year ended 31 December 2022, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Emil Vassilyan.

Armen Hovhannisyan	Emil Vassilyan
Chief executive officer of "Grant Thornton" CJSC	Engagement partner

14 April 2023

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2022	2021
Interest income calculated using effective interest rate	6	20,957,238	15,796,564
Interest expense	6	(11,363,137)	(9,329,629)
Net interest income		9,594,101	6,466,935
Fee and commission income	7	7,565,223	1,991,958
Fee and commission expense	7	(4,235,381)	(1,264,103)
Net fee and commission income		3,329,842	727,855
Net trading income	8	26,888,707	1,897,430
Other operating income	9	2,727,326	289,946
Other operating expenses	10	(1,160,851)	(1,126,937)
Operating income		41,379,125	8,255,229
Credit loss expense	11	(2,175,344)	(2,088,173)
Personnel expenses	12	(5,580,282)	(2,427,603)
Depreciation of property and equipment and amortization of intangible assets	20	(823,675)	(759,799)
Other general administrative expenses	13	(1,860,478)	(1,503,136)
Profit before income tax		30,939,346	1,476,518
Income tax expense	14	(5,214,947)	(348,492)
Profit for the year		25,724,399	1,128,026

Statement of profit or loss and other comprehensive income (continued)

In thousand Armenian drams

	Notes	2022	2021
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments)			
Net unrealized loss from change in fair value		(1,133,460)	(758,840)
Net loss reclassified to profit or loss and other comprehensive income on sale of investment securities at FVOCI		1,956	-
Changes in allowance for expected credit losses		(15,876)	(7,549)
Income tax relating to items that will be reclassified		203,671	136,591
Net loss on financial instruments at fair value through other comprehensive income		(943,709)	(629,798)
Other comprehensive income for the year, net of tax		(943,709)	(629,798)
Total comprehensive income for the year		24,780,690	498,228

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 75.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2022	31 December 2021
Assets			
Cash and cash equivalents	15	88,969,092	43,389,076
Amounts receivable on reverse repurchase agreements	16	27,033,349	20,348,011
Loans and advances to banks	17	2,850,926	2,294,215
Investment securities	18	51,797,556	10,300,374
Securities pledged under sale and repurchase agreements	18	-	16,772,616
Loans and advances to customers	19	161,583,223	139,957,954
Property, equipment and intangible assets	20	9,559,960	9,269,430
Repossessed assets	21	1,486,160	1,994,038
Other assets	22	4,743,746	1,389,278
Total assets		348,024,012	245,714,992
Liabilities and equity			
Liabilities			
Amounts due to banks	23	274,694	1,410,385
Amounts payables on repurchase agreements	24	-	16,010,497
Amounts due to customers	25	229,262,980	153,009,627
Debt securities issued	26	10,895,281	5,822,097
Other loans and borrowings	27	33,096,336	27,607,361
Subordinated debt	28	3,993,514	4,872,881
Current income tax liabilities		4,776,679	12,910
Deferred income tax liabilities	14	970,430	759,792
Other liabilities	29	3,817,888	2,433,812
Total liabilities		287,087,802	211,939,362

Statement of financial position (continued)

In thousand Armenian drams	Notes	31 December 2022	31 December 2021
Equity			
Share capital	30	23,000,000	20,000,000
Statutory general reserve		3,500,000	2,000,000
Other reserves		1,739,554	2,791,493
Retained earnings		32,696,656	8,984,137
Total equity		60,936,210	33,775,630
Total liabilities and equity		348,024,012	245,714,992

The financial statements were approved on 14 April 2023 by:

Karen Yeghiazaryan

Chairman of the Management Board

Emma Janinyan

Chief Accountant/ Member of the Management Board

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The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 75.

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Fair value reserve	Revaluation reserve of property and equipment	Retained earnings	Total
Balance as of 1 January 2022	20,000,000	2,000,000	(695,483)	3,486,976	8,984,137	33,775,630
Profit for the year	-	-	-	-	25,724,399	25,724,399
Other comprehensive income:						
Adjustment to reserve on amortization of property and equipment	-	-	-	(108,230)	108,230	-
Net change in fair value of investment securities at FVOCI	-	-	(1,133,460)	-	-	(1,133,460)
Net loss reclassified to profit or loss and other comprehensive income on sale of investment securities at FVOCI	-	-	1,956	-	-	1,956
Net changes in allowance for expected credit losses of instrument securities at FVOCI	-	-	(15,876)	-	-	(15,876)
Income tax relating to components of other comprehensive income	-	-	203,671	-	-	203,671
Total comprehensive income for the year	-	-	(943,709)	(108,230)	25,832,629	24,780,690
Increase in share capital	3,000,000	-	-	-	-	3,000,000
Distribution to reserve	-	1,500,000	-	-	(1,500,000)	-
Dividends to shareholders	-	-	-	-	(620,110)	(620,110)
Total transactions with owners	3,000,000	1,500,000	-	-	(2,120,110)	2,379,890
Balance as of 31 December 2022	23,000,000	3,500,000	(1,639,192)	3,378,746	32,696,656	60,936,210

Statement of changes in equity (continued)

In thousand Armenian drams	Share capital	Statutory general reserve	Fair value reserve	Revaluation reserve of property and equipment	Retained earnings	Total
Balance as of 1 January 2021	20,000,000	1,000,000	(65,685)	3,594,693	9,319,394	33,848,402
Profit for the year	-	-	-	-	1,128,026	1,128,026
Other comprehensive income:						
Adjustment to reserve on amortization of property and equipment	-	-	-	(107,717)	107,717	-
Net change in fair value of investment securities at FVOCI	-	-	(758,840)	-	-	(758,840)
Net changes in allowance for expected credit losses of investment securities at FVOCI	-	-	(7,549)	-	-	(7,549)
Income tax relating to components of other comprehensive income	-	-	136,591	-	-	136,591
Total comprehensive income for the year	-	-	(629,798)	(107,717)	1,235,743	498,228
Distribution to reserve	-	1,000,000	-	-	(1,000,000)	-
Dividends to shareholders	-	-	-	-	(571,000)	(571,000)
Total transactions with owners	-	1,000,000	-	-	(1,571,000)	(571,000)
Balance as of 31 December 2021	20,000,000	2,000,000	(695,483)	3,486,976	8,984,137	33,775,630

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 75.

Statement of cash flows

In thousand Armenian drams

	2022	2021
Cash flows from operating activities		
Profit before tax	30,939,346	1,476,518
Adjustments for		
Amortization and depreciation allowances	823,675	759,799
Net loss from disposal of property and equipment	104	5,100
Net gain from disposal of other assets	(79,002)	(2,176)
Credit loss expense	2,175,344	2,088,173
Net gain from revaluation of derivative financial instruments	-	(67,344)
Net (gain)/loss from revaluation of non-trading assets and liabilities	(2,274,926)	508,868
Interest receivable	(208,406)	(220,997)
Interest payable	1,195,492	716,754
Interest expenses on lease	92,279	81,019
Cash flows before changes in operating assets and liabilities	32,663,906	5,345,714
(Increase)/decrease in operating assets		
Amounts receivable on reverse repurchase agreements	(6,903,191)	(2,246,795)
Loans and advances to banks	(2,589,698)	(1,560,272)
Loans and advances to customers	(41,691,830)	(37,791,440)
Repossessed assets	638,529	159,460
Other assets	(3,702,969)	(448,852)
Increase/(decrease) in operating liabilities		
Amounts due to banks	1,011,029	(1,334,126)
Amounts payable on repurchase agreements	(15,947,495)	(519,199)
Amounts due to customers	94,437,134	36,209,088
Other liabilities	1,800,505	225,954
Net cash flow (used in)/from operating activities before income tax	59,715,920	(1,960,468)
Income tax paid	(36,869)	-
Net cash (used in)/from operating activities	59,679,051	(1,960,468)
Cash flows from investing activities		
Purchase of investment securities	(26,089,701)	(7,598,109)
Purchase of property, equipment and intangible assets	(819,357)	(516,525)
Proceeds from sale of property and equipment	171,169	-
Net cash used in investing activities	(26,737,889)	(8,114,634)

Statement of cash flows (continued)

In thousand Armenian drams

	2022	2021
Cash flow from financing activities		
Increase in share capital	3,000,000	-
Dividends paid	(571,000)	(481,842)
Debt securities issued	6,802,140	6,276,715
Other loans and borrowings	7,955,945	13,058,243
Lease liabilities	(217,961)	(167,329)
Net cash from financing activities	16,969,124	18,685,787
Net increase in cash and cash equivalents	49,910,286	8,610,685
Cash and cash equivalents at the beginning of the year	43,389,076	37,471,183
Exchange differences on cash and cash equivalents	(4,301,930)	(2,692,479)
The impact of changes in loss allowance on cash and cash equivalents	(28,340)	(313)
Cash and cash equivalents at the end of the year (note 15)	88,969,092	43,389,076

Supplementary information:

Interest received	20,748,832	15,575,567
Interest paid	(10,075,366)	(8,531,856)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 75.

Notes to the financial statements

1 Principal activities

"EVOCABANK" CJSC (the “Bank”) is the renamed “Prometey Bank” CJSC is a Closed Join Stock Company, which was incorporated on 01.06.1990. The Bank is regulated by the legislation of RA and conducts its business under license number 27, granted on 02.10.1991 by the Central Bank of Armenia (the “CBA”).

The Bank is a member of Individuals deposit compensation guarantee state system of RA, as well as member of Union of Banks of Armenia, ArCa, MasterCard payment systems.

The Bank accepts deposits from the public and extends credits, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

The head office of the Bank and its 13 branches are located in Yerevan; one branch is located in Gyumri, one branch in Abovyan and another branch is located in Vanadzor.

The number of employees of the Bank as of 31 December 2022 was 438 (2021: 369).

The registered office of the Bank is located at: 44/2 Hanrapetutyan str. Yerevan 0010, Republic of Armenia.

2 Armenian business environment

The changes in political and economic environment and the development of the legal, tax and legislative systems in Armenia have continuing nature and the stability and development of the Armenian economy largely depends on these changes.

The continuous Russian-Ukrainian war since February 2022 has had a significant impact on both the conflicting countries and on the world economy. Many leading countries and economic unions have announced severe economic sanctions against Russia, including Russian banks, other organizations and individuals. The war is still ongoing, but it has already led to a humanitarian crisis and huge economic losses in Ukraine, Russia and other countries.

The Ukraine and Russia are important trading partners of Armenia and Armenian business environment has not been spared from this influence. It is noteworthy that as a result of the war in Armenia, a certain economic activity was observed in 2022 due to the large influx of foreign citizens. There are no restrictions on the right of foreign citizens to own, establish or manage business interests in Armenia. Business registration procedures are generally simple. As a result of serving foreign citizens, in 2022, Armenian banks recorded a significant increase in income from intermediary activities. According to the Central Bank of Armenia and international financial organizations, the GDP growth in Armenia in 2022 will be about 13%.

Since the hostilities have not yet stopped, it is impossible to reliably assess its final impact on the business environment of Armenia.

These financial statements reflect management’s assessment of the impact of the Armenian business environment on the operations of the Bank. The Bank's management constantly analyzes the economic situation in the current environment. The future economic and political situation and its impact on the Bank's operations may differ from the management's current expectations.

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as developed and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The Bank prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These financial statements are based on the Bank’s books and records as adjusted and reclassified in order to comply with IFRS.

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial instruments at fair value through profit or loss and at fair value through other comprehensive income. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost, with the exception of buildings and land, which are stated at revalued amount.

3.3 Functional and presentation currency

Functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's functional currency and the Bank's presentation currency is Armenian Dram ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Bank. The financial statements are presented in thousands of AMD, unless otherwise stated, which is not convertible outside Armenia.

3.4 Changes in accounting policies and presentation

The Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New standards and amendments described below and applied for the first time in 2022, did not have a material impact on the annual financial statements of the Bank *(this section has to be customized to each client's financial statements)*.

- *Proceeds before intended use* (Amendments to IAS 16)
- *References to the conceptual framework* (Amendments to IFRS 3)
- *Onerous contracts – costs of fulfilling a contract* (Amendments to IAS 37)
- *Annual improvements to IFRS Standards 2018-2020 cycle* (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendments to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Bank applies the amendment to financial liabilities of 2022.

3.5 Standards and interpretations not yet applied by the Bank

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to the existing Standards have been published but are not yet effective. The Bank has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Bank's accounting policy for the first period beginning after the effective date of the pronouncement.

Management does not anticipate a material impact on the Bank's financial statements from these Standards and Amendments, they are presented below.

- *IFRS 17 Insurance Contracts*
- *Amendments to IFRS 17 Insurance Contracts (IFRS 17 and IFRS 4)*
- *Classification of liabilities as current or non-current* (Amendments to IAS 1)
- *Definition of Accounting Estimates (Amendments to IAS 8)*
- *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*
- *Non-current Liabilities with Covenants (Amendments to IAS 1)*
- *Deferred Tax related to Assets and Liabilities from a Single Transaction.*

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Bank and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

The effective interest rate method

Interest income and expense are recognised in profit or loss using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECL). For purchased or originated creditimpaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, refer to note 4.4.6.

Fee and commission income and expense

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes and foreign exchange differences related to trading assets and liabilities. Net trading income also includes gains less losses from trading in foreign currencies and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currency

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss and other comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are recorded in the statement of profit or loss and other comprehensive income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in the own equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as equity investment in respect of which an election has been made to present subsequent changes in fair value in are included in the fair value reserve in equity.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in net trading income.

The exchange rates at year-end used by the Bank in the preparation of the financial statements are as follows:

	31 December 2022	31 December 2021
AMD/1 US Dollar	393.57	480.14
AMD/1 EUR	420.06	542.61
AMD/1 RUB	5.59	6.42

4.3 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result, tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result, significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

The Republic of Armenia also has various operating taxes, which are assessed on the Bank’s activities. These taxes are included as a component of other expenses in the statement of profit or loss and other comprehensive income.

4.4 Financial instruments

4.4.1 Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which The Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

4.4.2 Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment whether contractual cash flows are solely payments of principal and interest (The SPPI test)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. Financial liabilities are never reclassified.

Financial liabilities

The Bank classifies its financial liabilities as measured at amortised cost or FVTPL.

4.4.3 Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also note 4.4.4), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (refer to note 4.4.3) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, The Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (refer to note 4.4.6), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

4.4.5 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

4.4.6 Impairment

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') on the following financial instruments that are not measured at FVTPL:

- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income
- lease receivables
- loan commitments to provide a loan
- financial guarantee contracts

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL (12mECLs) are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Lifetime expected credit losses (LTECLs) are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Measurement of ECL

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 37.1.2.

Based on the above process, The Bank groups its financial instruments into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, The Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, The Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECLs.

- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- **PD (the Probability of Default)** is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- **EAD (the Exposure at Default)** is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- **LGD (the Loss Given Default)** is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The PD, the EAD and the LGD are further explained in note 37.1.2.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (refer to note 4.4.4) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, The Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by The Bank on terms that The Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In making an assessment of whether an investment in sovereign debt is credit-impaired, The Bank considers the following factors.

- The market’s assessment of creditworthiness as reflected in the bond yields.
- The rating agencies’ assessments of creditworthiness.

- The country’s ability to access the capital markets for new debt issuance.

Presentation of allowances for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.
- loan commitments and financial guarantee contracts: generally, as a provision;
  - When estimating LTECLs for undrawn loan commitments, The Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
  - where a financial instrument includes both a drawn and an undrawn component, and The Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;
  - the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, The Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within Provisions.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when The Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

4.5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks , including deposits maturing within 90 days.

Cash and cash equivalents are carried at amortised cost.

4.6 Loans and advances to banks

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from banks are carried net of any allowance for impairment losses.

4.7 Loans and advances to customers

Loans and advances are financial assets with fixed or determinable payments, which arise when the Bank provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Bank with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

4.8 Investment securities

The "investment securities" caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

4.9 Repurchase and reverse repurchase agreements

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The corresponding liability is presented within "Payables on repurchase agreements" line item.

Securities purchased under agreements to resell (“reverse repo”) are recorded as Receivables on reverse repurchase agreements and are not recognized in the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return the securities is recorded as a trading liability and measured at fair value.

4.10 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected in the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized in the statement of financial position, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in “Net trading income”.

4.11 Leases

For any new contracts entered into on, the Bank considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank,
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defies anted scope of the contract,
- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

Measurement and recognition of leases

Bank as a lessee

At lease commencement date, the Bank recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist. Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank’s incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in the other liabilities.

4.12 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation. Bank’s buildings are presented at fair value less accumulated depreciation. If the recoverable value of property and equipment is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at fair value. It has unlimited useful life and thus is not depreciated.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

	Useful life (years)	Rate (%)
Buildings	40	2.5
Computers and communications	1-8	100-12.5
Vehicles	8	12.5
Other fixed assets	5-8	20-12.5

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property plant and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

The frequency of revaluation of land and buildings depends on changes in fair value of assets. In case of significant divergences between fair value of revalued assets and their carrying amounts further revaluation is conducted. Revaluation is conducted for the whole class of property, plant and equipment.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Along with the usage of fixed assets, the difference of the calculated depreciation based on the revalued amount of the asset and calculated depreciation based on the cost of the asset is transferred to retained earnings.

In case of sale or write-off of fixed assets the balance relating to revaluation reserve of that fixed assets is totally transferred to retained earnings.

4.13 Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives, during 1-10 years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

4.14 Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost and fair value less costs to sell.

4.15 Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their air value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.16 Grants

Grants relating to the assets are included in other liabilities and are credited to the statement of profit or loss and other comprehensive income on a straight line basis over the expected lives of the related assets.

4.17 Borrowings

Borrowings, which include amounts due to the Central Bank, amounts due to other international and RA financial institutions, amounts due to customers, debt securities issued and subordinated debt are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in the statement of income.

4.18 Financial guarantees and loan commitments

"Financial guarantees" are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. "Loan commitments" are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

4.19 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made. Provisions also include liabilities arising from financial guarantees and loan commitments as provided in note 4.18.

4.20 Equity

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Retained earnings

Include accumulated earnings of current and previous periods.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Property revaluation surplus

The property revaluation surplus is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Fair value reserve for investments securities at FVOCI

This reserve records fair value changes in investment securities at fair value through other comprehensive income.

4.21 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components. In identifying its operating segments, management generally distinguishes components of the Bank that is engaged in providing products or services (business segment) and for which discrete financial information is available. All operating segments' operating results are reviewed regularly by the Bank's CEO to make decisions about resources to be allocated to the segment and assess its performance. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

5.1 Judgements

Classification of financial assets:

The Bank assesses the business model within which the assets are held and also assesses whether the contractual terms of the financial asset are solely payments of principal and interest on the outstanding principal amount (refer to note 4.4.2).

Establish criteria for calculating ECL

The Bank establishes the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determines methodology for incorporating forward- looking information into measurement of ECL and selects and approves of models used to measure ECL.

5.2 Assumptions and estimations uncertainty

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 34).

Useful Life of property and equipment

Useful life evaluation of property and equipment is the result of judgement, based on the experience with similar assets. Future economic benefits are embodied in assets and mainly consumed along with usage. However, such factors as operational, technical or commercial depreciation often lead to decrease of asset's economic benefit. Management evaluates the remaining useful life according to the asset's current technical condition and estimated period, during which the Bank expects to receive benefits. For the evaluation of remaining useful life are considered the following main factors: expectable usage of assets, depending on the operational factors and maintenance program, that is depreciation and technical and commercial depreciation arising from the changes in the market conditions.

Impairment of financial instruments

The Bank assess of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (refer to note 37.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.6).

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to note 32.

6 Net interest income

In thousand Armenian drams	2022	2021
Interest income calculated using effective interest rate		
Loans to customers	14,983,091	12,349,342
Investment securities at FVOCI	997,431	1,782,037
Reverse repurchase transactions	2,168,633	1,515,266
Loans and advances to banks	202,006	97,964
Investment securities at amortised cost	2,602,982	50,060
Other	3,095	1,895
Total interest income	20,957,238	15,796,564

In thousand Armenian drams	2022	2021
Interest income calculated using effective interest rate		
Customer accounts	7,699,024	6,295,942
Repurchase transactions	612,211	1,094,971
Other loans and borrowings	1,868,616	990,583
Subordinated debt	392,138	453,355
Debt securities issued	659,420	302,121
Amounts due to banks	39,449	111,059
Interest expenses on lease	92,279	81,019
Other	-	579
Total interest expense	11,363,137	9,329,629
Total net interest income	9,594,101	6,466,935

7 Fee and commission income and expense

In thousand Armenian drams	2022	2021
Settlement operations/transfers	1,153,488	644,552
Plastic cards operations	2,394,126	1,072,269
Cash operations	895,782	148,718
Guarantees and letters of credit	63,324	93,833
Cash/non-cash currency translation	3,054,842	14,553
Other fees and commissions	3,661	18,033
Total fee and commission income	7,565,223	1,991,958
Cash/non-cash currency translation	1,831,957	144,529
Plastic cards operations	1,683,660	904,717
Settlement operations/transfers	681,987	188,747
Guarantees and letters of credit	1,303	20,627
Other expenses	36,474	5,483
Total fee and commission expense	4,235,381	1,264,103

8 Net trading income

In thousand Armenian drams	2022	2021
Net income from trading in foreign currencies*	26,885,806	1,825,960
Net income from derivative instruments	-	67,344
Net income on trading of securities at FVTPL	3,470	4,126
Net loss from sale of derivative instruments	(569)	-
Total net trading income	26,888,707	1,897,430

*In 2022 the net income from the trading in foreign currency is due to the increase in the number of the Bank's clients and corresponding transactions as a result of the inflow of foreign citizens (refer to note 2).

9 Other operating income

In thousand Armenian drams	2022	2021
Fines and penalties received	194,600	231,633
Income from grants relating to assets	2,074	2,075
Income from dividends	3,047	-
Net income from sale of other assets	79,252	2,176
Net income from sale of property, equipment and intangible assets	1,089	-
Net gain from revaluation of financial assets and liabilities	2,274,926	-
Other	172,338	54,062
Total other operating income	2,727,326	289,946

10 Other operating expenses

In thousand Armenian drams	2022	2021
Deposit Guarantee Fund expenses	480,645	374,361
Costs of early repayment of loans	316,985	-
Operating systems usage costs	91,815	91,586
Card issuance costs	41,966	26,573
Cash collection expenses	39,134	28,644
Loans concession costs	361	10,259
Expenses for the Financial Mediator	24,673	21,732
Net loss from disposal of property, equipment and intangible assets	1,193	5,097
Net loss from disposal of other assets	250	-
Net loss from foreign currency transactions of non-trading assets and liabilities	-	508,868
Expenses from prior periods resulting from the correction of material errors	53,129	-
Other	110,700	59,817
Total other operating expense	1,160,851	1,126,937

11 Credit loss expense/(reversal of credit loss expense)

In thousand Armenian drams	Note	Stage 1	Stage 2	Stage 3	Total
					2022
Cash and cash equivalents	15	28,340	-	-	28,340
Amounts receivable under reverse repurchase agreements	16	3,986	-	-	3,986
Loans and advances to banks	17	33,067	-	-	33,067
Investment securities measured at FVOCI	18	(15,876)	-	-	(15,876)
Investment securities measured at amortised cost	18	43,435	-	-	43,435
Loans and advances to customers	19	(160,134)	187,497	1,979,198	2,006,561
Other assets	22	10,854	-	-	10,854
Financial guarantees	31	64,977	-	-	64,977
Credit loss expense		8,649	187,497	1,979,198	2,175,344

In thousand Armenian drams	Note	Stage 1	Stage 2	Stage 3	Total
					2021
Cash and cash equivalents	15	313	-	-	313
Amounts receivable under reverse repurchase agreements	16	2,216	-	-	2,216
Loans and advances to banks	17	(5,808)	-	-	(5,808)
Investment securities measured at FVOCI	18	(7,549)	-	-	(7,549)
Investment securities measured at amortised cost	18	7,580	-	-	7,580
Loans and advances to customers	19	(73,177)	(726,439)	2,886,538	2,086,922
Other assets	22	6,129	-	-	6,129
Financial guarantees	31	(1,630)	-	-	(1,630)
Credit loss expense/(reversal of credit loss expense)		(71,926)	(726,439)	2,886,538	2,088,173

12 Personnel expenses

In thousand Armenian drams	2022	2021
Compensations of employees, related taxes included	5,408,237	2,310,673
Personnel training expenses	33,610	29,703
Other personnel expenses	138,435	87,227
Total personnel expenses	5,580,282	2,427,603

13 Other general administrative expenses

In thousand Armenian drams	2022	2021
Advertising costs	320,334	348,697
Intangible assets maintenance	325,265	231,192
Representative and organizational expenses	195,380	92,096
Tangible assets repair and maintenance	215,890	163,358
Loan repayment costs	159,999	163,290
Taxes, other than income tax, duties	111,778	71,080
Security	102,402	100,833
Office supplies	88,221	67,038
Communications	57,153	55,228
Insurance	66,382	62,715
Consulting and other services	98,323	75,403
Expenses of short term assets leases	70,331	49,429
Other	49,020	22,777
Total other general administrative expense	1,860,478	1,503,136

14 Income tax expense

In thousand Armenian drams	2022	2021
Current tax expense	4,800,638	91,399
Adjustments of income tax of previous years	-	(18,335)
Deferred tax	414,309	275,428
Total income tax expense	5,214,947	348,492

The corporate income tax within the Republic of Armenia is levied at the rate of 18% (2021: 18%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The amount of deferred income tax is calculated using the basic rate of 18% (2021: 18%).

Numerical reconciliation between the tax expenses and accounting profit is provided below:

In thousand Armenian drams	2022	Effective rate (%)	2021	Effective rate (%)
Profit before tax	30,939,346		1,476,518	
Income tax	5,569,082	18	265,773	18
Non-deductible expenses/(non-taxable income)	61,977	-	24,105	2
Foreign exchange (gains)/losses	(416,112)	(1)	89,071	6
Tax adjustments for previous year	-	-	(18,335)	(1)
Net (gain)/loss from revaluation of derivative instruments	-	-	(12,122)	(1)
Total income tax expense	5,214,947	17	348,492	24

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	01 January 2022	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2022 Net	31 December 2022 Deferred tax asset	31 December 2022 Deferred tax liability
Cash and cash equivalents	(4,951)	(1,374)	-	(6,325)	-	(6,325)
Amounts receivable on reverse repurchase agreements	(299)	(291)	-	(590)	-	(590)
Loans and advances to banks	(653)	4,535	-	3,882	3,882	-
Investment securities	169,819	4,178	203,671	377,668	377,668	-
Loans and advances to customers	(177,216)	(407,036)	-	(584,252)	-	(584,252)
Property, equipment and intangible assets	(736,357)	31,831	-	(704,526)	-	(704,526)
Other assets	(1,194)	(9,444)	-	(10,638)	-	(10,638)
Amounts due to customers	(8,139)	(464)	-	(8,603)	-	(8,603)
Other loans and borrowings	(18,805)	(14,841)	-	(33,646)	-	(33,646)
Other liabilities	18,003	(21,403)	-	(3,400)	-	(3,400)
Deferred tax asset/(liability)	(759,792)	(414,309)	203,671	(970,430)	381,550	(1,351,980)

In thousand Armenian drams	01 January 2021	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2021 Net	31 December 2021 Deferred tax asset	31 December 2021 Deferred tax liability
Cash and cash equivalents	(8,685)	3,734	-	(4,951)	-	(4,951)
Amounts receivable on reverse repurchase agreements	(30,950)	30,651	-	(299)	-	(299)
Loans and advances to banks	950	(1,603)	-	(653)	-	(653)
Investment securities	31,864	1,364	136,591	169,819	169,819	-
Loans and advances to customers	127,103	(304,319)	-	(177,216)	-	(177,216)
Property, equipment and intangible assets	(772,237)	35,880	-	(736,357)	-	(736,357)
Other assets	(1,336)	142	-	(1,194)	-	(1,194)
Amounts due to customers	(5,338)	(2,801)	-	(8,139)	-	(8,139)
Other loans and borrowings	174	(18,979)	-	(18,805)	-	(18,805)
Subordinated debt	(52)	52	-	-	-	-
Other liabilities	21,162	(3,159)	-	18,003	18,003	-
Tax loss ceded	16,390	(16,390)	-	-	-	-
Deferred tax asset/(liability)	(620,955)	(275,428)	136,591	(759,792)	187,822	(947,614)

15 Cash and cash equivalents

In thousand Armenian drams	31 December 2022	31 December 2021
Correspondent account with the CBA	54,037,245	31,280,861
Cash on hand	27,822,349	11,023,309
Correspondent accounts with banks	7,142,149	1,089,217
	89,001,743	43,393,387
Less loss allowance	(32,651)	(4,311)
Total cash and cash equivalents	88,969,092	43,389,076

As of 31 December 2022 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which as of 31 December is computed at 4% of certain obligations of the Bank denominated in Armenian drams and 18% of certain obligations of the Bank, denominated in foreign currency. Banks reserve 6% of their foreign currency borrowings in AMD and 12% in foreign currency.

The Bank's ability to withdraw deposit maintained in AMD is not restricted by the statutory legislation; however, if the Bank fails to comply with minimum average monthly amount of reserve sanctions may apply. For the obligatory reserve maintained in foreign currencies the Bank is required to maintain a minimum balance at the end of each day. As of 31 December 2022 the reserves amounted to AMD 31,507,738 thousand (2021: AMD 21,141,006 thousand)

As of 31 December 2022 the Bank did not have a correspondent account (31 December 2021: either) except for the CBA, the balance of which exceeds 10% of equity.

An analysis of changes in the ECLs on cash and cash equivalents as follows:

In thousand Armenian drams	31 December 2022	31 December 2021
	Stage 1	Stage 1
ECL allowance as of 1 January	4,311	3,998
Net remeasurement of loss allowance	(4,311)	(3,998)
New financial assets provided	32,651	4,311
Balance as of 31 December	32,651	4,311

16 Amounts receivable under reverse repurchase agreements

In thousand Armenian drams	31 December 2022	31 December 2021
Reverse repurchase agreements with banks	7,060,265	-
Reverse repurchase agreements with other financial institutions	19,989,253	20,360,194
	27,049,518	20,360,194
Less loss allowance on receivables on reverse repurchase agreements	(16,169)	(12,183)
Total amounts receivable under reverse repurchase agreements	27,033,349	20,348,011

As of 31 December 2022 the Bank had only one counterparty (31 December 2021: one counterparty), the balance of which exceeds 10% of equity: As of 31 December 2022 the net amount of these contracts was AMD 7,060,265 thousand (31 December 2021: AMD 4,174,783 thousand).

An analysis of changes in the ECLs on Amounts receivable under reverse repurchase agreements as follows:

In thousand Armenian drams	31 December 2022	31 December 2021
	Stage 1	Stage 1
ECL allowance at 1 January	12,183	9,967
Net remeasurement of loss allowance	(12,183)	(9,967)
New financial assets provided	16,169	12,183
Balance at 31 December	16,169	12,183

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements are presented as follows:

In thousand Armenian drams	2022		2021	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
RA state and corporate bonds	28,865,885	27,049,518	21,926,478	20,360,194
Total assets pledged and loans under reverse repurchase agreements	28,865,885	27,049,518	21,926,478	20,360,194

As of 31 December 2022 the Bank does not possess securities pledged under repurchase agreements and received by the Bank as collateral under reverse repurchase agreements (2021: either).

17 Loans and advances to banks

In thousand Armenian drams	31 December 2022	31 December 2021
Loans to banks	1,658,206	870,896
Term deposits in banks	-	558,770
Deposited funds with CBA	1,100,000	624,500
Deposited funds in other banks	124,086	245,133
Other short-term demands	6,785	-
	2,889,077	2,299,299
Loss allowance on loans and advances to banks	(38,151)	(5,084)
Total loans and advances to banks	2,850,926	2,294,215

Deposited funds with the CBA include a guaranteed deposit for settlements via ArCa payment system.

Blocked deposits with financial institutions represent a blocked deposit for membership in Master Card payment system (31 December 2021: either).

As of 31 December 2022 the Bank does not have funds given to any bank (as of 31 December 2021: either), the balances of which exceed 10% of the Bank's equity.

An analysis of changes in the ECLs on loans and advances to banks as follows:

In thousand Armenian drams	31 December 2022	31 December 2021
	Stage 1	Stage 1
ECL allowance as of 1 January	5,084	10,892
Net remeasurement of loss allowance	11,282	(7,405)
Net remeasurement of loss allowance on new financial assets provided	21,785	1,597
Balance as of 31 December	38,151	5,084

18 Investment securities

Investment securities measured at amortised cost

In thousand Armenian drams	31 December 2022	31 December 2021
Investment securities measured at amortised cost		
RA state bonds	25,811,381	3,638,825
RA corporate bonds	963,624	-
Loss allowance	(51,015)	(7,580)
Total investment securities measured at amortised cost	26,723,990	3,631,245

An analysis of changes in the ECLs on investment securities measured at amortised cost as follows:

In thousand Armenian drams	2022	2021
	Stage 1	Stage 1
ECL allowance as of 1 January	7,580	-
Net remeasurement of loss allowance	(515)	-
Net remeasurement of loss allowance on new financial assets provided	43,950	7,580
Balance as of 31 December	51,015	7,580

Investment securities measured at amortised cost upon profitability and maturity terms:

In thousand Armenian drams	31 December 2022		31 December 2021	
	%	Maturity	%	Maturity
RA state bonds	6.8-12.0	2024-2031	9.5-10.5	2024-2031
RA corporate bonds	9.0-9.5	2025	-	-

Debt securities measured at FVOCI

In thousand Armenian drams	31 December 2022	31 December 2021
Debt securities measured at FVOCI		
RA state bonds	24,552,968	5,385,976
RA corporate bonds	477,773	1,240,328
Equity instruments	42,825	42,825
Total debt securities measured at FVOCI	25,073,566	6,669,129
Debt securities pledged under repurchase agreements measured at FVOCI		
RA state bonds	-	16,772,616
Debt securities pledged under repurchase agreements measured at FVOCI	-	16,772,616

An analysis of changes in the ECLs on debt investment securities measured at FVOCI, including pledged under repurchase agreements as follow:

In thousand Armenian drams	2022	2021
	Stage 1	Stage 1
ECL allowance as at 1 January	71,920	79,469
Net remeasurement of loss allowance	(33,808)	(24,457)
Net remeasurement of loss allowance on new financial assets provided or acquired	17,932	16,908
Balance at 31 December	56,044	71,920

The above loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities at FVOCI is their fair value.

All debt securities have fixed coupons.

The Bank has not reclassified any financial assets measured at amortised cost rather than fair value during the year (2021: either).

Investment securities measured at FVOCI by effective interest rates and maturity date comprise:

In thousand Armenian drams	31 December 2022		31 December 2021	
	%	Maturity	%	Maturity
RA state bonds	6.4-11.8	2023-2037	6.4-10.0	2022-2037
RA corporate bonds	9.0-12.0	2023-2025	7.5-11.0	2022-2049

Equity instruments included in investment securities measured at FVOCI are non-quoted equity securities as follows;

Name	Country of incorporation	Контролируемый %		In thousand Armenian drams	
		2022	2021	2022	2021
ArCa	Republic of Armenia	1.25	1.25	10,717	10,717
ACRA Credit Reporting	Republic of Armenia	5.9	5.9	32,108	32,108
				42,825	42,825

The Bank’s management believes that estimated fair values of these instruments approximates to their costs as at 31 December 2022 and 2021.

19 Loans and advances to customers

In thousand Armenian drams	31 December 2022			31 December 2021		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
Mortgage and consumer lending						
Mortgage	56,576,391	(161,412)	56,414,979	40,868,629	(119,218)	40,749,411
Consumer lending	19,066,578	(690,935)	18,375,643	23,903,937	(1,352,611)	22,551,326
Overdrafts	1,448,796	(53,323)	1,395,473	1,678,117	(94,140)	1,583,977
	77,091,765	(905,670)	76,186,095	66,450,683	(1,565,969)	64,884,714
Commercial lending						
Construction	19,215,548	(158,248)	19,057,300	12,278,117	(165,819)	12,112,298
Industry	19,032,967	(573,918)	18,459,049	15,450,816	(84,132)	15,366,684
Trading	19,894,177	(924,423)	18,969,754	22,564,464	(168,402)	22,396,062
Financial services	7,807,921	(152,525)	7,655,396	4,215,242	(63,426)	4,151,816
Other	21,286,559	(30,930)	21,255,629	21,111,164	(64,784)	21,046,380
	87,237,172	(1,840,044)	85,397,128	75,619,803	(546,563)	75,073,240
Total	164,328,937	(2,745,714)	161,583,223	142,070,486	(2,112,532)	139,957,954

The ECL allowance in these tables includes ECL on loan commitments for products such as credit cards and overdrafts, because the Bank cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

As of 31 December 2022 the Bank acquired the collateral received for loans to customers, the carrying amount of those assets amounted to AMD 51,649 thousand (2021: AMD 79,263 thousand). The bank intends to sell these assets in a short period of time.

As of 31 December 2022 the Bank did not have borrowers, whose loan balances exceed 10% of equity (2021: AMD 17,518,662 provided to four borrowers and groups of related parties).

An analysis of changes in gross carrying amounts in relation to mortgage and consumer lending and commercial lending are as follows

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
Balance at of 1 January	64,056,358	1,240,312	1,154,013	66,450,683
New assets originated	48,294,738	-	-	48,294,738
Assets repaid	(19,304,361)	(219,501)	(708,878)	(20,232,740)
- Transfer to Stage 1	215,531	(215,531)	-	-
- Transfer to Stage 2	(363,656)	424,746	(61,090)	-
- Transfer to Stage 3	(990,774)	(646,300)	1,637,074	-
Change in balance of asset from interest and foreign exchange	(16,089,797)	(123,610)	(172,415)	(16,385,822)
Recoveries	-	-	841,678	841,678
Amounts written off during the year	-	-	(1,876,772)	(1,876,772)
Balance as of 31 December	75,818,039	460,116	813,610	77,091,765

In thousand Armenian drams				2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commercial lending				
Balance at of 1 January	74,971,418	217,983	430,402	75,619,803
New assets originated	88,653,614	-	-	88,653,614
Assets repaid	(37,429,072)	(4,546)	(201,346)	(37,634,964)
- Transfer to Stage 2	(3,605,784)	3,605,784	-	-
- Transfer to Stage 3	(4,657,522)	(214,002)	4,871,524	-
Change in balance of asset from interest and foreign exchange	(37,382,987)	(734,168)	(945,841)	(39,062,996)
Recoveries	-	-	75,432	75,432
Amounts written off during the year	-	-	(413,717)	(413,717)
Balance as of 31 December	80,549,667	2,871,051	3,816,454	87,237,172

In thousand Armenian drams				2021
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Mortgage and consumer lending				
Balance at of 1 January	52,174,460	1,509,383	3,266,392	56,950,235
New assets originated	45,683,651	96,297	57,382	45,837,330
Assets repaid	(29,370,194)	(380,308)	(710,028)	(30,460,530)
- Transfer to Stage 1	2,869,226	(1,257,948)	(1,611,278)	-
- Transfer to Stage 2	(150,620)	1,152,909	(1,002,289)	-
- Transfer to Stage 3	-	(141,862)	141,862	-
Change in balance of asset from interest and foreign exchange	(7,150,165)	261,841	5,084,351	(1,803,973)
Recoveries	-	-	1,409,422	1,409,422
Amounts written off during the year	-	-	(5,481,801)	(5,481,801)
Balance as of 31 December	64,056,358	1,240,312	1,154,013	66,450,683

In thousand Armenian drams				2021
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commercial lending				
Balance at of 1 January	56,863,278	1,407,049	586,170	58,856,497
New assets originated	65,284,002	19,039	8,324	65,311,365
Assets repaid	(41,944,144)	(1,240,075)	(123,323)	(43,307,542)
- Transfer to Stage 1	167,132	(60,125)	(107,007)	-
- Transfer to Stage 2	(125,073)	143,065	(17,992)	-
- Transfer to Stage 3	-	(125,354)	125,354	-
Change in balance of asset from interest and foreign exchange	(5,273,777)	74,384	(48,729)	(5,248,122)
Recoveries	-	-	110,787	110,787
Amounts written off during the year	-	-	(103,182)	(103,182)
Balance as of 31 December	74,971,418	217,983	430,402	75,619,803

An analysis of changes in ECL allowances in relation to mortgage and consumer lending and commercial lending are as follows.

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
ECL allowance as at 1 January	534,814	430,426	600,729	1,565,969
- Transfer to Stage 1	79,985	(79,985)	-	-
- Transfer to Stage 2	(7,316)	25,363	(18,047)	-
- Transfer to Stage 3	(23,314)	(214,361)	237,675	-
Net remeasurement of loss allowance	(311,221)	(27,671)	495,509	156,617
Net remeasurement of loss allowances on new originated financial assets	158,590	5,886	53,702	218,178
Recoveries	-	-	841,678	841,678
Amounts written off during the year	-	-	(1,876,772)	(1,876,772)
Balance at 31 December	431,538	139,658	334,474	905,670

In thousand Armenian drams				2022
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
ECL allowance as at 1 January	388,223	60,766	97,574	546,563
- Transfer to Stage 2	(33,111)	33,111	-	-
- Transfer to Stage 3	(34,744)	(60,471)	95,215	-
Net remeasurement of loss allowance	(169,749)	208,984	1,427,577	1,466,812
Net remeasurement of loss allowances on new originated financial assets	162,246	298	2,410	164,954
Recoveries	-	-	75,432	75,432
Amounts written off during the year	-	-	(413,717)	(413,717)
Balance at 31 December	312,865	242,688	1,284,491	1,840,044

In thousand Armenian drams				2021
	Stage 1	Stage 2	Stage 3	Total
Mortgage and consumer lending				
ECL allowance as at 1 January	716,271	770,661	2,044,324	3,531,256
- Transfer to Stage 1	74,502	(29,115)	(45,387)	-
- Transfer to Stage 2	(70,529)	600,661	(530,132)	-
- Transfer to Stage 3	-	(76,748)	76,748	-
Net remeasurement of loss allowance	(362,273)	(842,940)	3,114,454	1,909,241
Net remeasurement of loss allowances on new originated financial assets	176,843	7,907	13,101	197,851
Recoveries	-	-	1,409,422	1,409,422
Amounts written off during the year	-	-	(5,481,801)	(5,481,801)
Balance at 31 December	534,814	430,426	600,729	1,565,969

In thousand Armenian drams				2021
	Stage 1	Stage 2	Stage 3	Total
Commercial lending				
ECL allowance as at 1 January	276,832	62,187	220,109	559,128
- Transfer to Stage 1	511	(142)	(369)	-
- Transfer to Stage 2	(1,373)	2,442	(1,069)	-
- Transfer to Stage 3	-	(112,315)	112,315	-
Net remeasurement of loss allowance	(84,780)	108,594	(242,743)	(218,929)
Net remeasurement of loss allowances on new originated financial assets	197,033	-	1,726	198,759
Recoveries	-	-	110,787	110,787
Amounts written off during the year	-	-	(103,182)	(103,182)
Balance at 31 December	388,223	60,766	97,574	546,563

As of 31 December 2022, loans to customers in amount of AMD 20,542,703 thousand (31 December 2021: AMD 14,902,415 thousand) serve as collateral for other loans and borrowings.

Maturity analysis of loans and advances to customers are disclosed in note 36.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in note 37. Information on related parties is disclosed in note 33.

20 Property and equipment and intangible assets

In thousand Armenian drams	Land and buildings	Leasehold improve-ment	Computer equip-ment	Vehicles	Office equipment and other fixed assets	Capital investment in property and equipment	Intangible assets	Right-of-use assets Land and buildings	Total
Cost / revalued amount									
As of 1 January 2021	6,748,877	199,043	843,906	159,610	1,966,242	36,094	627,375	1,026,593	11,607,740
Additions	9,099	12,133	77,019	6,457	290,274	9,252	112,291	-	516,525
Reclassifications	45,346	1,850	709	-	(2,559)	(45,346)	-	-	-
Disposals	-	-	(6,382)	-	(220,523)	-	(61,809)	-	(288,714)
As of 31 December 2021	6,803,322	213,026	915,252	166,067	2,033,434	-	677,857	1,026,593	11,835,551
Additions	-	35,005	236,071	30,654	291,377	-	226,250	466,121	1,285,478
Reclassifications	(2,342)	-	-	-	2,342	-	-	-	-
Disposals	(170,500)	-	(342)	(9,428)	(10,829)	-	(17,685)	-	(208,784)
As of 31 December 2022	6,630,480	248,031	1,150,981	187,293	2,316,324	-	886,422	1,492,714	12,912,245
Accumulated depreciation									
As of 1 January 2021	123,228	49,762	347,210	68,854	1,147,828	-	208,648	144,406	2,089,936
Expenses for the year	216,614	13,456	128,428	17,506	204,033	-	63,179	116,583	759,799
Reclassifications	-	-	(334)	-	334	-	-	-	-
Disposals	-	-	(6,381)	-	(215,492)	-	(61,741)	-	(283,614)
As of 31 December 2021	339,842	63,218	468,923	86,360	1,136,703	-	210,086	260,989	2,566,121
Expenses for the year	213,925	14,154	126,479	19,187	203,916	-	91,734	154,280	823,675
Reclassifications	(1,057)	-	-	-	1,057	-	-	-	-
Disposals	(8,525)	-	(342)	(9,426)	(1,533)	-	(17,685)	-	(37,511)
As of 31 December 2022	544,185	77,372	595,060	96,121	1,340,143	-	284,135	415,269	3,352,285

In thousand Armenian drams	Land and buildings	Leasehold improve-	Computer equip-ment	Vehicles	Office equipment	Capital investment	Intangible assets	Right-of-use assets	Total
Carrying amount									
As of 31 December 2021	6,463,480	149,808	446,329	79,707	896,731	-	467,771	765,604	9,269,430
As of 31 December 2022	6,086,295	170,659	555,921	91,172	976,181	-	602,287	1,077,445	9,559,960

As of 31 December 2021 intangible assets include investments in digital systems with a carrying amount of AMD 192,313 thousand, as of 31 December 2022 none.

Right-of-use-assets

Right-of-use assets represent the office premises leased by the Bank to operate the branches.

Fully depreciated items

As of 31 December 2022 the initial value of fully depreciated assets included in fixed assets amounted to AMD 1,013,113 thousand (2021: AMD 655,206 thousand).

Restrictions on title of fixed assets and intangible assets

As of 31 December 2022, the Bank does not possess any fixed assets and intangible assets pledged as security for liabilities or whose title is otherwise restricted (2021: either).

Contractual commitments

As of 31 December 2022 the Bank had not contractual commitments of making investments in fixed assets and intangible assets (31 December 2021: either).

Revaluation of assets

The last revaluation of the lands and buildings owned by the Bank was carried out by an independent valuation organization as of June 1, 2020, using a combination of the market, income and cost methods resulting in a revaluation increase of AMD 2,661,164 thousand and a loss of AMD 5,687 thousand. Management has based their estimate on the results of the independent valuation.

The management believes that at 31 December 2022 and 31 December 2021 the fair value of the buildings does not differ significantly from their revalued amounts.

If the net book value of revalued buildings that would have been recognised under the historic cost, the carrying amounts will be presented as follows:

In thousand Armenian drams	31 December 2022	31 December 2021
Cost	3,093,660	3,266,502
Accumulated depreciation	(1,128,843)	(1,055,431)
Carrying amount	1,964,817	2,211,071

21 Repossessed assets

Details of confiscated financial assets serving as collateral for loans issued by the Bank as of 31 December 2022 and 31 December 2021 are presented below.

In thousand Armenian drams	31 December 2022	31 December 2021
Real estate	1,477,944	1,994,038
Other assets	8,216	-
Total repossessed assets	1,486,160	1,994,038

During the year ended 31 December 2022, the Bank repossessed property in terms of collateral for loans to customers in amount of AMD 51,649 thousand (2021: AMD 79,263 thousand).

At the date of confiscation, the collateral is measured at the lower of the carrying amount of non-repaid loan liabilities and the fair value of collateral.

It is the Bank's policy to properly and timely dispose the collateral. The Bank does not principally use non-cash collaterals for carrying out its activity. Assets are measured at the lower of carrying amount and fair value less costs to sell.

22 Other assets

In thousand Armenian drams	31 December 2022	31 December 2021
Receivables and other proceeds	1,518,273	1,061,047
Short-term amounts due from other financial institutions	2,042,090	35,709
Proceeds on cash transfers	493,553	132,306
Other financial assets	4,053,916	1,229,062
Less loss allowance for other assets	(13,790)	(6,135)
Total other financial assets	4,040,126	1,222,927
Prepayments	438,893	78,273
Materials	93,315	31,552
Tax prepayments	1,861	55
Other	169,551	56,471
Total non-financial assets	703,620	166,351
Total other assets	4,743,746	1,389,278

Short-term amounts due from other financial institutions include the amount of AMD 1,967,850 thousand, which is a banknote sale transaction to another financial institution, the payment of which is expected within 5 calendar days.

An analysis of changes in the ECLs on other assets is as follows:

In thousand Armenian drams	2022	2021
	Stage 1	Stage 1
ECL allowance as of 1 January	6,135	1,370
Net remeasurement of loss allowance	(6,135)	(1,370)
Net remeasurement of loss allowances on new originated financial assets	16,989	7,499
Net amounts written off	(3,199)	(1,364)
Balance at 31 December	13,790	6,135

23 Amounts due to banks

In thousand Armenian drams	31 December 2022	31 December 2021
Loans from banks	-	1,400,626
Other payables to banks	274,694	13
Other short-term liabilities	-	9,746
Total amounts due to banks	274,694	1,410,385

Loans from financial institutions have fixed interest rates.

As of 31 December 2022 the Bank did not have a counterparty bank, the balances of which exceed 10% of equity (31 December 2021: either).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2021: either).

Other amounts payable to banks include amounts received for repayment of attracted loans.

24 Amounts payable on repurchase agreements

In thousand Armenian drams	31 December 2022	31 December 2021
Repurchase agreements with the CBA	-	16,010,497
Total amounts payable on repurchase agreements	-	16,010,497

25 Amounts due to customers

In thousand Armenian drams	31 December 2022	31 December 2021
Corporate customers		
Current/Settlement accounts	59,516,233	28,936,398
Time deposits	22,163,351	21,245,596
	81,679,584	50,181,994
Retail customers		
Current/Demand accounts	44,214,161	16,287,758
Time deposits	103,369,235	86,539,875
	147,583,396	102,827,633
Total amounts due to customers	229,262,980	153,009,627

As of 31 December 2022 time deposits of corporate/retail customers are deposits amounting to AMD 3,778,314 thousand (31 December 2021: AMD 8,469,367 thousand) held as security against loans to customers, guarantees issued and other transaction related contingent obligations. The fair value of those deposits approximates the carrying amount.

As of 31 December 2022 the Bank did not have group of related customers (2021: four, with total amount of AMD 21,419,441 thousand), whose accounts balances exceed 10% of equity.

26 Debt securities issued

During 2022, the Bank had issued interest-bearing bonds with following terms:

Date of issue	Currency	Per value	Nominal value	Quantity	%	Maturity of bonds	Total nominal value
AMPROMB26ER3	28.03.2022	AMD	10,000	200,000	11.0	28.09.2024	2,000,000,000
AMPROMB25ER5	28.03.2022	USD	100	100,000	5.0	28.09.2024	10,000,000

The Bank has not repurchased any of its own debt during the year.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period.

As of 31 December 2022 the Bank did not have counterparty (2021: either), whose accounts balances exceed 10% of equity.

The bonds issued by the Bank are listed in the Armenian Securities Exchange.

27 Other loans and borrowings

In thousand Armenian drams	31 December 2022	31 December 2021
Loans from credit organizations	16,165,885	12,125,174
Borrowings from individuals	3,515,893	5,448,416
Loans from RA CBA	4,376,818	2,777,241
Borrowings from international financial institutions	9,037,740	7,256,530
Total other loans and borrowings	33,096,336	27,607,361

As of 31 December 2022 the Bank had three financial organization (31 December 2021: four), the balances of which exceed 10% of equity. These loans as of 31 December 2022 amounted to AMD 22,291,601 thousand (31 December 2021: AMD 24,912,541 thousand).

Loans received by individuals are amounts received from a related person of the Bank (refer to note 33).

28 Subordinated debt

In thousand Armenian drams	31 December 2022	31 December 2021
Subordinated debt provided by individuals	3,993,514	4,872,881
Total subordinated debt	3,993,514	4,872,881

Subordinate debt represents a long term borrowing agreement, which, in case of the Bank's default, would be secondary to the Bank's other obligations, including deposits and other debt instruments.

During 2016 The Bank has received a subordinated debt in amount of US dollar 10,000 thousand maturing in 2031.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (31 December 2021: either).

29 Other liabilities

In thousand Armenian drams	31 December 2022	31 December 2021
Lease liabilities	1,166,032	825,593
Due to personnel	267,037	195,867
Dividend liabilities	620,110	571,000
Amounts payable under state support programs	29,483	28,480
Accounts payable	870,732	569,694
Total other financial liabilities	2,953,394	2,190,634
Tax payable, other than income tax	743,661	186,112
Grants related to assets	39,409	41,483
ECL allowance on financial guarantees	80,560	15,583
Other	864	-
Total other non-financial liabilities	864,494	243,178
Total other liabilities	3,817,888	2,433,812

Lease liabilities

The Bank has leases for branches. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Right-of-use assets are presented in the statement of financial position in the line of property and equipment (refer to note 20):

Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. The Bank is prohibited from selling or pledging the underlying leased assets as security. The Bank must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

Set out below are presented the movements of lease liabilities during the period.

In thousand Armenian drams	31 December 2022	31 December 2021
As of 1 January	825,593	911,903
Additions	466,121	-
Accretion of interest	92,279	81,019
Payments	(217,961)	(167,329)
Total lease liabilities as of 31 December	1,166,032	825,593

In 2022 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 6.6-10.42% (2021: 6.6-10.42%).

The lease liabilities are secured by the related underlying assets. The maturity analysis of lease liabilities as of 31 December 2022 is disclosed in note 36.

Lease payments not recognized as a liability

The Bank has elected not to recognize a lease liability for accounting for short-term leases (with an expected maturity of 12 months or less). Payments for such leases are made on a straight-line basis (note 13).

Grants related to assets

In thousand Armenian drams	2022	2021
As of 1 January	41,483	43,558
Recognition of income	(2,074)	(2,075)
As of 31 December	39,409	41,483

30 Equity

As of 31 December 2022 the Bank’s registered and paid-in charter capital was AMD 23,000,000 thousand. In accordance with the Bank’s statues, the share capital consists of 172,500 ordinary shares, all of which have a par value of AMD 100,000 each and 57,500 non-redeemable preference shares, all of which have a par value of AMD 100,000 each.

The respective shareholdings as of 31 December 2022 and 2021 may be specified as follows:

In thousand Armenian drams	31 December 2022		31 December 2021	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Mareta Rudik Gevorkyan	22,980,100	99.9	19,373,600	96.9
Other shareholders	19,900	0.1	626,400	3.1
	23,000,000	100	20,000,000	100

As of 31 December 2022 and 31 December 2021, the Bank did not possess any of its own shares.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank.

In 2022 the Bank increased its share capital by AMD 3,000,000 thousand, issuing ordinary shares totaling AMD 2,250,000 thousand and preference shares totaling AMD 750,000 thousand. The increase of the share capital of the Bank was carried out by the shareholders in AMD, they have the right to receive dividends and distribute the profit in AMD.

During the year ended 31 December 2022 the Bank accrued dividends totaling AMD 620,110 thousand on preferred shares (2021: AMD 571,000 thousand).

Distributable among participants reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 5% of the Bank's charter capital reported in statutory books.

31 Loan commitments and financial guarantee

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

As of 31 December the contract amounts were:

In thousand Armenian drams	31 December 2022	31 December 2021
Undrawn loan and credit line commitments	14,799,173	10,412,638
Guarantees	4,801,136	2,569,078
Total commitments and contingent liabilities	19,600,309	12,981,716

An analysis of changes in the ECLs on loan commitment included in allowances of loans and advances to customers (refer to note 19).

The changes in the ECLs on financial guarantees and letters of credit are presented in other liabilities. An analysis of these changes as follow:

In thousand Armenian drams	2022	2021
	Stage 1	Stage 1
Financial guarantees and letters of credit		
ECL allowance as of 1 January	15,583	17,213
Net remeasurement of loss allowance	46,579	(11,656)
Net remeasurement of allowances for new guarantees provided	18,398	10,026
Balance as of 31 December	80,560	15,583

32 Contingencies

Tax and legal matters

The taxation system in Armenia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

These circumstances may create tax risks in Armenia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant. Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.

Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Bank, will not have a material adverse impact on the financial condition or results of future operations of the Bank.

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

33 Transactions with related parties

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include participants, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively.

The direct significant participant and ultimate controlling party of the bank is Mareta Gevorkyan.

A number of banking transactions are entered into with related parties in the normal course of business. These transactions comprise loans, deposits, etc.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams		2022		2021
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Statement of financial position				
Loans and advances to customers				
Loans outstanding at 1 January	1,303,101	466,284	4,444,362	346,730
Loans issued during the year	119,052	497,952	-	450,820
Loan repayments during the year	(1,402,745)	(639,534)	(3,141,261)	(331,266)
Loans outstanding at 31 December, gross	19,408	324,702	1,303,101	466,284
Less allowance for loan impairment	(1,796)	(2,002)	(506)	(3,051)
Loans outstanding at 31 December	17,612	322,700	1,302,595	463,233

In thousand Armenian drams	2022		2021	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Amounts due to customers				
Deposits at 1 January	4,575,344	13,629,300	6,384,974	1,513,807
Received during the year	23,858,710	56,834,027	2,584,086	14,763,680
Repayments during the year	(27,357,543)	(68,039,849)	(4,393,716)	(2,648,187)
Deposits at 31 December	1,076,511	2,423,478	4,575,344	13,629,300
Subordinated debt	3,993,514	-	4,872,881	-
Other loans and borrowings	3,515,893	-	5,448,416	-
Statement of profit or loss and other comprehensive income				
Interest income	24,195	48,961	154,169	40,367
(Credit loss expense) (credit loss reversal)	(1,290)	1,049	4,901	(1,701)
Interest expense	(637,775)	(58,313)	(911,507)	(70,620)
Net income from revaluation of derivative instruments	-	-	67,344	-
Other operating expenses	-	(2,795)	-	-

The loans issued to parties related with the Bank are repayable over 1-10 years and have effective interest rates of 11-19% (2021: 6-21%).

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2022	2021
Salaries and bonuses	2,278,886	496,311
Total key management compensation	2,278,886	496,311

34 Fair value measurement

The Bank's management determines the policies and procedures for both recurring fair value measurement, such as unquoted trading and available-for-sale securities, unquoted derivatives and for non-recurring measurement, such as assets held for sale.

External valuers are involved for valuation of significant assets, such as properties and repossessed assets. Involvement of external valuers is decided upon annually by the Bank's Board.

Financial and non-financial assets and liabilities measured at fair value in the statement of financial position are presented below. This hierarchy groups financial and non-financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

34.1 Financial instruments that are not measured at fair value

The table below presents the fair value of financial assets and liabilities not measured at their fair value in the statement of financial position and analyses them by the level in the fair value hierarchy into which teach fair value measurement is categorised.

In thousand Armenian drams					31 December 2022
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	88,969,092	-	88,969,092	88,969,092
Amounts receivable under reverse repurchase agreements	-	27,033,349	-	27,033,349	27,033,349
Loans and advances to banks	-	2,850,926	-	2,850,926	2,850,926
Investment securities measured at amortised cost	-	28,004,797	-	28,004,797	26,723,990
Loans and advances to customers	-	161,517,496	-	161,517,496	161,583,223
Other assets	-	4,040,126	-	4,040,126	4,040,126
Financial liabilities					
Amounts due to banks	-	274,694	-	274,694	274,694
Amounts due to customers	-	223,138,230	-	223,138,230	229,262,980
Other loans and borrowings	-	33,096,336	-	33,096,336	33,096,336
Debt securities issued	-	10,919,001	-	10,919,001	10,895,281
Subordinated debt	-	3,993,514	-	3,993,514	3,993,514
Other liabilities	-	2,953,394	-	2,953,394	2,953,394

In thousand Armenian drams					31 December 2021
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	43,389,076	-	43,389,076	43,389,076
Amounts receivable under reverse repurchase agreements	-	20,348,011	-	20,348,011	20,348,011
Loans and advances to banks	-	2,294,215	-	2,294,215	2,294,215
Investment securities measured at amortised cost	-	3,676,933	-	3,676,933	3,631,245
Loans and advances to customers	-	139,801,076	-	139,801,076	139,957,954
Other assets	-	1,222,927	-	1,222,927	1,222,927
Financial liabilities	-	1,410,385	-	1,410,385	1,410,385
Amounts due to banks	-	16,010,497	-	16,010,497	16,010,497
Payables on repurchase agreements	-	152,248,525	-	152,248,525	153,009,627
Amounts due to customers	-	27,607,361	-	27,607,361	27,607,361
Other loans and borrowings	-	6,016,754	-	6,016,754	5,822,097
Subordinated debt	-	4,872,881	-	4,872,881	4,872,881
Other liabilities	-	2,190,634	-	2,190,634	2,190,634

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

Loans to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by independent, professionally-qualified property valuers.

Investment securities measured at amortised cost

Market values have been used to determine the fair value of investment securities measured at amortised cost traded on an active market. For securities that are not traded on an active market, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

Amounts due to financial institutions and customers

The fair value of deposits from financial institutions and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

Other loans and borrowings

The fair value of borrowings and loans with fixed and unquoted interest rates is set based on the calculation of future cash flows, which are discounted applying the rates that are offered new debt instruments of similar maturities and terms.

34.2 Financial instruments that are measured at fair value

In thousand Armenian drams				**31 December 2022**
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
State and corporate bonds	477,773	24,552,968	-	25,030,741
Equity instruments	-	-	42,825	42,825
Total	477,773	24,552,968	42,825	25,073,566

In thousand Armenian drams				**31 December 2021**
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
State and corporate bonds	1,240,328	5,385,976	-	6,626,304
Equity instruments	-	-	42,825	42,825
State bonds pledged under repurchase agreements	-	16,772,616	-	16,772,616
Total	1,240,328	22,158,592	42,825	23,441,745

There have been no transfers between levels 1 and 2 in the reporting period.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

Quoted investments

All the listed securities and bonds have been issued by publicly traded companies in Armenia.

Unquoted debt securities

The fair value of unquoted debt securities at FVOCI is measured using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

Unquoted equity investments

For determining the fair value of unquoted equity instruments the Bank uses a combination of market and income approaches. The market approach and the income approach are common valuation techniques for equity investments that are not publicly traded. Under the market approach, the Bank uses prices and other relevant information generated by market transactions involving identical or comparable securities. Under the income approach, future amounts are converted into a single present amount (e.g. a discounted cash flows model). The market approach is preferred as the main inputs used are typically observable.

34.3 Fair value measurement of non-financial assets

Fair value of the Bank's main property assets is estimated based on appraisals performed by independent, professionally-qualified property valuers. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the board of directors at each reporting date.

The appraisal was carried out using comparative, cost and income approaches that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use and other.

The land and building were revalued in June 2020.

The significant unobservable input is the adjustment for factors specific to the land in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is a subjective judgement, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

35 Offsetting of financial assets and financial liabilities

In the ordinary course of business, the Bank performs different operations with financial instruments which may be presented in net amounts when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

The table below presents financial assets and financial liabilities that are offset in the statement of financial position or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

In thousand Armenian drams	31 December 2022					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments in the statement of financial position	Non cash collateral received/ provided	Net
Financial assets						
Amounts receivable on reverse repurchase agreements (note 16)	27,049,518	-	27,049,518	-	28,865,885	1,816,367

In thousand Armenian drams	31 December 2021					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments in the statement of financial position	Non cash collateral received/ provided	Net
Financial assets						
Amounts receivable on reverse repurchase agreements (note 16)	20,360,194	-	20,360,194	-	21,926,478	1,566,284
Financial liabilities						
Amounts payable under repurchase agreements (note 18, 24)	16,010,497		16,010,497	16,772,616	-	(762,119)

As of 31 December 2022 the loans in amount of AMD 122,555 thousand provided by the Bank were offset with the liabilities of the RA Government, as the Bank is the servicing agent of these loans and these loans were provided by the RA Government within the framework of measures to neutralize the economic effects of coronavirus.

36 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. Refer to note 37.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams	31 December 2022						
	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash and cash equivalents	88,969,092	-	88,969,092	-	-	-	88,969,092
Amounts receivable under reverse repurchase agreements	27,033,349	-	27,033,349	-	-	-	27,033,349
Loans and advances to banks	1,219,086	855,362	2,074,448	776,478	-	776,478	2,850,926
Investment securities at FVOCI including the pledged securities	3,285,028	9,804,992	13,090,020	6,237,080	5,746,466	11,983,546	25,073,566
Investment securities at amortised cost	31,704	2,058,835	2,090,539	18,484,715	6,148,736	24,633,451	26,723,990
Loans and advances to customers	5,746,604	34,584,482	40,331,086	71,375,535	49,876,602	121,252,137	161,583,223
Other financial assets	4,040,126	-	4,040,126	-	-	-	4,040,126
	130,324,989	47,303,671	177,628,660	96,873,808	61,771,804	158,645,612	336,274,272
Liabilities							
Amounts due to banks	274,694	-	274,694	-	-	-	274,694
Amounts due to customers	112,404,494	70,329,181	182,733,675	46,513,332	15,973	46,529,305	229,262,980
Debt securities issued	-	4,957,174	4,957,174	5,938,107	-	5,938,107	10,895,281
Other loans and borrowings	1,221,183	3,753,790	4,974,973	18,383,867	9,737,496	28,121,363	33,096,336
Subordinated debt	17,467	40,563	58,030	-	3,935,484	3,935,484	3,993,514
Other financial liabilities	1,171,545	797,638	1,969,183	765,243	218,968	984,211	2,953,394
	115,089,383	79,878,346	194,967,729	71,600,549	13,907,921	85,508,470	280,476,199
Net position	15,235,606	(32,574,675)	(17,339,069)	25,273,259	47,863,883	73,137,142	55,798,073
Accumulated gap	15,235,606	(17,339,069)		7,934,190	55,798,073		

In thousand Armenian drams	31 December 2021						
	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash and cash equivalents	43,389,076	-	43,389,076	-	-	-	43,389,076
Amounts receivable under reverse repurchase agreements	20,348,011	-	20,348,011	-	-	-	20,348,011
Loans and advances to banks	1,763,725	434,859	2,198,584	95,631	-	95,631	2,294,215
Investment securities at FVOCI including the pledged securities	-	5,581,639	5,581,639	11,137,258	6,722,848	17,860,106	23,441,745
Investment securities at amortised cost	-	273,653	273,653	2,240,565	1,117,027	3,357,592	3,631,245
Loans and advances to customers	3,876,011	26,898,562	30,774,573	69,046,321	40,137,060	109,183,381	139,957,954
Other financial assets	1,222,927	-	1,222,927	-	-	-	1,222,927
	70,599,750	33,188,713	103,788,463	82,519,775	47,976,935	130,496,710	234,285,173
Liabilities							
Amounts due to banks	1,410,385	-	1,410,385	-	-	-	1,410,385
Amounts payables on repurchase agreements	16,010,497	-	16,010,497	-	-	-	16,010,497
Amounts due to customers	51,437,727	54,294,904	105,732,631	47,270,246	6,750	47,276,996	153,009,627
Debt securities issued	-	20,697	20,697	5,801,400	-	5,801,400	5,822,097
Other loans and borrowings	213,700	1,035,797	1,249,497	18,558,963	7,798,901	26,357,864	27,607,361
Subordinated debt	21,783	49,958	71,741	4,801,140	-	4,801,140	4,872,881
Other financial liabilities	793,205	668,140	1,461,345	416,660	312,629	729,289	2,190,634
	69,887,297	56,069,496	125,956,793	76,848,409	8,118,280	84,966,689	210,923,482
Net position	712,453	(22,880,783)	(22,168,330)	5,671,366	39,858,655	45,530,021	23,361,691
Accumulated gap	712,453	(22,168,330)		(16,496,964)	23,361,691		

37 Risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board is responsible for implementation, realization and control of processes, which are connected with risk management.

Risk Controlling Unit

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits across the Bank. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of the Bank and the Management Board.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of the Bank and the Management Board. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place by maturity. The Management receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

A daily briefing is given to the members of the Management Board, which includes Bank normative, current balance of the Bank, daily change in income and expenses and changes in off-balance sheet articles.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

37.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Bank's Risk Management Department and reported to the Board of Directors and Management Board.

The carrying amounts of the Bank's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

37.1.1 Credit quality analysis

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets, without taking account of any collateral held or other credit enhancements. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of internal rating grades is included in note 37.1.2.

In thousand Armenian drams	31 December 2022			
Rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents				
High	27,822,349	-	-	27,822,349
Standard	61,179,394	-	-	61,179,394
Gross carrying amount	89,001,743	-	-	89,001,743
Loss allowance	(32,651)	-	-	(32,651)
Net carrying amount	88,969,092	-	-	88,969,092
Amounts receivable under reverse repurchase agreements				
Standard	27,049,518	-	-	27,049,518
Gross carrying amount	27,049,518	-	-	27,049,518
Loss allowance	(16,169)	-	-	(16,169)
Net carrying amount	27,033,349	-	-	27,033,349
Loans and advances to banks				
Standard grade	2,889,077	-	-	2,889,077
Gross carrying amount	2,889,077	-	-	2,889,077
Loss allowance	(38,151)	-	-	(38,151)
Net carrying amount	2,850,926	-	-	2,850,926
Loans to mortgage and consumer loans				
High grade	75,616,570	-	-	75,616,570
Standard grade	201,469	301,702	-	503,171
Low grade	-	158,414	-	158,414
Non-performing grade	-	-	813,610	813,610
Gross carrying amount	75,818,039	460,116	813,610	77,091,765
Loss allowance	(431,538)	(139,658)	(334,474)	(905,670)
Net carrying amount	75,386,501	320,458	479,136	76,186,095

In thousand Armenian drams	31 December 2022			
Rating grade	Stage 1	Stage 2	Stage 3	Total
Loans to commercial customers				
High grade	80,542,861	-	-	80,542,861
Standard grade	6,806	2,836,221	-	2,843,027
Low grade	-	34,830	-	34,830
Non-performing grade	-	-	3,816,454	3,816,454
Gross carrying amount	80,549,667	2,871,051	3,816,454	87,237,172
Loss allowance	(312,865)	(242,688)	(1,284,491)	(1,840,044)
Net carrying amount	80,236,802	2,628,363	2,531,963	85,397,128
Debt securities at amortised cost				
Standard	26,775,005	-	-	26,775,005
Gross carrying amount	26,776,005	-	-	26,775,005
Loss allowance	(51,015)	-	-	(51,015)
Net carrying amount	26,723,990	-	-	26,723,990
Debt investment securities at FVOCI including the pledged securities				
Standard	25,030,741	-	-	25,030,741
Gross carrying amount-fair value	25,030,741	-	-	25,030,741
Loss allowance	(56,044)	-	-	(56,044)
Other financial assets				
Standard	4,053,916	-	-	4,053,916
Gross carrying amount	4,053,916	-	-	4,053,916
Loss allowance	(13,790)	-	-	(13,790)
Net carrying amount	4,040,126	-	-	4,040,126
Loan commitments and financial guarantee				
Standard	19,600,309	-	-	19,600,309
Gross carrying amount	19,600,309	-	-	19,600,309
Loss allowance*	(80,560)	-	-	(80,560)

In thousand Armenian drams	31 December 2021			
Rating grade	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
High	11,023,309	-	-	11,023,309
Standard	32,370,078	-	-	32,370,078
Gross carrying amount	43,393,387	-	-	43,393,387
Loss allowance	(4,311)	-	-	(4,311)
Net carrying amount	43,389,076	-	-	43,389,076

In thousand Armenian drams	31 December 2021			
Rating grade	Stage 1	Stage 2	Stage 3	Total
Amounts receivable under reverse repurchase agreements				
Standard	20,360,194	-	-	20,360,194
Gross carrying amount	20,360,194	-	-	20,360,194
Loss allowance	(12,183)	-	-	(12,183)
Net carrying amount	20,348,011	-	-	20,348,011
Loans and advances to banks				
Standard grade	2,299,299	-	-	2,299,299
Gross carrying amount	2,299,299	-	-	2,299,299
Loss allowance	(5,084)	-	-	(5,084)
Net carrying amount	2,294,215	-	-	2,294,215
Loans to mortgage and consumer customers				
High grade	63,783,787	-	-	63,783,787
Standard grade	272,571	923,493	-	1,196,064
Substandard grade	-	316,819	-	316,819
Non-performing grade	-	-	1,154,013	1,154,013
Gross carrying amount	64,056,358	1,240,312	1,154,013	66,450,683
Loss allowance	(534,814)	(430,426)	(600,729)	(1,565,969)
Net carrying amount	63,521,544	809,886	553,284	64,884,714
Loans to commercial customers				
High grade	74,952,031	-	-	74,952,031
Standard grade	19,387	209,971	-	229,358
Substandard grade	-	8,012	-	8,012
Non-performing grade	-	-	430,402	430,402
Gross carrying amount	74,971,418	217,983	430,402	75,619,803
Loss allowance	(388,223)	(60,766)	(97,574)	(546,563)
Net carrying amount	74,583,195	157,217	332,828	75,073,240
Debt investment securities at amortised cost				
Standard grade	3,638,825	-	-	3,638,825
Gross carrying amount	3,638,825	-	-	3,638,825
Loss allowance	(7,580)	-	-	(7,580)
Net carrying amount	3,631,245	-	-	3,631,245
Debt investment securities at FVOCI including the pledged securities				
Standard	23,398,920	-	-	23,398,920
Gross carrying amount-fair value	23,398,920	-	-	23,398,920
Loss allowance	(71,920)	-	-	(71,920)

In thousand Armenian drams	31 December 2021			
Rating grade	Stage 1	Stage 2	Stage 3	Total
Other financial assets				
Standard grade	1,229,062	-	-	1,229,062
Gross carrying amount	1,229,062	-	-	1,229,062
Loss allowance	(6,135)	-	-	(6,135)
Net carrying amount	1,222,927	-	-	1,222,927
Loan commitments and financial guarantee				
Standard	12,981,716	-	-	12,981,716
Gross carrying amount	12,981,716	-	-	12,981,716
Loss allowance*	(15,583)	-	-	(15,583)

* Loss allowances represent the ECL allowances on financial guarantees. ECL allowances on loans and advances include ECL allowances on loan commitments.

37.1.2 Impairment assessment

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies (Refer to note 4.4.6).

Significant increase in credit risk

At each reporting date, The Bank assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, The Bank use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

The bank considers both quantitative and forward-looking qualitative criteria in order to assess whether a significant increase in credit risk has occurred.

However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, The Bank use past due information to determine whether there have been significant increases in credit risk since initial recognition.

Criteria for loans and advances to customers

The criteria for Loans and advances to customers are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was at least one case of more than 60 days past due.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified as default, during the last 12 months it was at least once in stage 3.
- Loans in the probation period. Significant increase in credit risk is considered in case of a forborne performing loan or forborne non-performing loan, which is in the probation period (period after cure period).

wherein, the loan should not have overdue days of more than 30 days or any indication of an unlikeliness to pay.

Criteria for amounts due from financial institutions

The criteria for credit institutions and other financial corporations are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- For correspondent and current accounts 7 days' pas due. More than 7 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was at least one case of more than 60 days past due.
- Change notches external credit score/ rate. For this criterion, the corporate rating will be taken into account. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down each time by one level, started from BB (S&P) (or the equivalent of Moody's and Fitch). In cases where a financials institutions don't have a corporate rating in a rating agency and The Bank does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified in default, during the last 12 months it was at least once in stage 3.

Criteria for Investment securities

The criteria for securities are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system.
- Change notches external credit score/ rate. For this criterion, the country's rating will be taken into account government securities or corporate rating will be taken into account for corporate securities. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down one level each time, beginning with BB (S&P) (or the equivalent of Moody's and Fitch). In cases where an issuers of securities don't have a corporate rating in a rating agency and The Bank does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

Exit criteria from significant deterioration stage

If none of the indicators that are used by The Bank to assess whether significant increase in credit risk has occurred, is present, transfer from stage 2 to stage 1 is performed, with the exception of forborne loans for which a probation period is used.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative (primarily driven by loans days past due: not overdue financial assets are defined high grade, overdue less than 30 days – standard grade, overdue more than 30 days and less than 90 days –

substandard or low grade and overdue more than 90 days – non-performing grade) factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The table below present average 12 month PDs per grades for loans and advances to customers and loan commitments and financial guarantee.

		2022	2021
	Grade	12 month PD range	12 month PD range
Loans to mortgage and consumer customers	High,Standard	0.50-8.77%	0.54-9.21%
	Substandard	10.93-68.90%	4.75-75.61%
	Non-Performing	89.65-100%	76.31-100%
Loans to commercial customers	High,Standard	0.24-0.73%	1.61-11.13%
	Substandard	11.13-12.22%	22.96-40.79%
	Non-Performing	89.17-100%	89.84-100%

The table below shows the mapping of Bank's grading system and *external ratings of the counterparties*.

		2022	2021
International external rating agency (S&P) rating	Grade	12 month PD	12 month PD
AAA to A-	Hight	0.001-0.026%	0.001-0.025%
BBB+ to B-	Standard	0.045-3.231%	0.043-3.472%
CCC+ to CC	Substandard	5.519-27.516%	6.003-31.025%
D	Non-Performing	100%	100%

Collective or individual assessment

The Bank calculates ECLs either on a collective or an individual basis. Asset classes where the Bank calculates ECL on an individual basis include:

- Individually significant loans of Stage 3, regardless of the class of financial assets
- The large and unique exposures
- The treasury, trading and interbank relationships such as due from banks, securities pledged under repurchase agreements and debt instruments at FVOCI
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

Those assets for which ECL does not calculated individually the bank groups into segment on the basis of shared credit risk characteristics as described below.

- Type of loan (for example, corporate, mortgage, credit card, consumer loan, etc.)
- The type of customer (for example, a physical person or legal entity or by industry type),
- Type of collateral (for example, property, receivables, etc.),
- Currency
- Other relevant characteristics.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

The Bank considers interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- lawsuit, execution or enforced execution in order to collect debt,
- license of the borrower is withdrawn,
- the borrower is a co-debtor when the main debtor is in default,
- multiple restructurings on one exposure,
- there are justified concerns about a borrower's future ability to generate stable and sufficient cash flows,
- the borrower's overall leverage level has significantly increased or there are justified expectations of such changes to leverage; equity reduced by 50% within a reporting period due to losses;
- debt service coverage ratio indicates that debt is not sustainable
- loss of major customer or tenant,
- connected customer has filed for bankruptcy,
- restructuring with a material part which is forgiven (net present value (NPV) loss),
- credit institution or leader of consortium starts bankruptcy/insolvency proceedings

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least three consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Bank's criterion for 'cure' for ECL purposes is less stringent than the 12 months' requirement for forborne non-performing exposures.

Forborne and modified loan

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

The Bank defines the "cure" period as a 12-month period after forbearance, which is applied for forborne non-performing exposures. Given the fact that it is impossible to determine financial difficulties immediately after forbearance, it is necessary to use the "cure" period to determine whether the loan was effectively cured. All forborne non-performing loans must remain at stage 3 after the forbearance date, despite the behavior of the loan (no overdue days, etc.).

The Bank defines the probation period as 24-month period after "cure" period, which is applied for forborne performing exposures (excluding any grace period). Once an asset has been classified as forborne performing exposures, it will remain forborne for a minimum 24-month probation period.

In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing
- The probation period of two years has passed from the date the forborne contract was considered performing

- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due.

If modifications are substantial, the loan is derecognised, as explained in note 4.4.4.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification loss suffered by the Bank.

In thousand Armenian drams

	2022	2021
Amortised costs of financial assets modified during the period	27,763	34,894
Net modification loss	(2,236)	(11,813)

Probability of Default (PD)

The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12mECL), or over the remaining lifetime (LTECLs) of the obligation.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

Loss given default (LGD)

LGD is determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD’s are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD’s are influenced by collection strategies, including contracted debt sales and price.

Exposure at default (EAD)

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For products with contractual terms, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a “credit conversion factor” which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the Bank's recent default data.

Forward looking information

An overview of the approach to estimating ECLs is set out in note 4.4.6, estimates and assumptions. To ensure completeness and accuracy, the Bank obtains the data used from third party sources (WB, CBA, Government of RA and etc.). In order to generate the influence of the macroeconomic factors, the Bank determining the weights to the selected macroeconomic factors and to the multiple scenarios (Base, Upside and Downside), which are predicted. To calculate the macroeconomic adjustment for ECL the Bank uses a wide range of forecast information as economic inputs for its models, including:

- GDP growth
- Net current transfers from abroad (current US dollar)
- Unemployment

- Bank's non-performing loans to total gross loans
- Trade growth
- Industry growth
- Official exchange rate
- Real estate prices (average price in Yerevan)

37.1.3 Risk concentrations

Geographical sectors

The majority of the Banks assets is allocated in the Republic of Armenia.

Industry sectors

The analysis of loan portfolio by industry sectors is represented in note 19.

37.1.4 Collateral and other credit enhancement

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, movable properties, equipment, inventory and trade receivables and, in special circumstances, government guarantees
- For consumer lending residential properties and other collateral.
- For mortgages over residential properties

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Generally, no collaterals are required for provision of loans and advances to financial institutions, especially to Banks. The exception is collaterals obtained under repurchase agreements and securities borrowing transactions. Debt securities, treasury and other eligible bills are generally unsecured.

The analysis of gross loan portfolio by collateral is represented as follows:

In thousand Armenian drams	31 December 2022	31 December 2021
Loans collateralized by real estate	121,547,345	101,676,433
Loans collateralized by movable and other property	4,088,253	1,227,609
Loans collateralized by current and term deposits	2,189,492	4,213,007
Loans collateralized by inventories	2,318,785	1,857,220
Loans collateralized by guarantees	12,867,267	13,905,900
Loans collateralized by gold jewellery and other gold items	1,602,478	1,791,072
Other collateral	1,269,865	440,309
Unsecured loans	18,445,452	16,958,936
Total loans and advances to customers (gross)	164,328,937	142,070,486

The amounts presented in the table above are carrying values of the loans, and do not necessarily represent the fair value of the collaterals. Estimates of market values of collaterals are based on valuation of the collateral at the date when loans were provided. Generally, they are not updated unless loans are assessed as credit-impaired.

As of 31 December 2022, the net carrying amount of credit-impaired loans and advances, which are secured by collateral are amounted to AMD 609,084 thousand (2021: AMD 230,568 thousand) and the value of collateral is more than the net carrying amount of loans and advances. The identifiable collateral (mainly commercial properties) held against those loans and advances amounted to AMD 1,980,018 thousand (2021: AMD 667,570 thousand).

37.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

37.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of profit or loss and other comprehensive income.

The sensitivity of the statement of profit or loss and other comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2022.

The sensitivity of equity is calculated by revaluating fixed rate of financial assets measured at FVOCI as of 31 December 2022 based on the expected changes in the yield curve.

In thousand Armenian drams		31 December 2022		
Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity	Total
AMD	+1	56,601	(501,782)	(445,181)
AMD	(1)	(56,601)	501,782	445,181

In thousand Armenian drams		31 December 2021		
Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity	Total
AMD	+1	(8,151)	(670,822)	(678,973)
AMD	(1)	8,151	670,822	678,973

Average effective interest rates

The table below displays average interest rates for interest earning assets and interest-bearing liabilities as at 31 December 2022 and 31 December 2021. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2022			2021		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD, EUR and other convertible currency	Other currencies	AMD	USD, EUR and other convertible currency	Other currencies
Interest earning assets						
Amounts receivable on reverse repurchase agreements	12.0	2.7	-	9.2	2.8	-
Loans to banks	-	8.0	-	-	5.0	-
Term deposits in banks	-	-	-	-	-	7.8
Investment securities	10.3	8.5	-	8.7	8.2	-
Loans and advances to customers	13.4	8.7	8.5	14.0	8.8	8.3
Interest earning liabilities						
Amounts due to banks	-	-	-	8.5	-	-
Amounts payable on repurchase agreements	-	-	-	8.3	-	-
Amounts due to customers	10.0	4.3	5.6	9.9	4.8	5.9
Debt securities issued	10.7	5.3	-	10.4	5.6	-
Other loans and borrowings	6.3	7.1	-	6.1	5.3	-
Subordinated debt	-	9.3	-	-	9.3	-

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2022 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in statement of profit or loss and other comprehensive income or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	31 December 2022		31 December 2021	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
Freely convertible	+5	72,815	+5	26,567
Not freely convertible	+5	(60,343)	+5	(1,058)

The Bank's exposure to foreign currency exchange risk is as follow:

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total 2022
Assets				
Cash and cash equivalents	15,365,028	70,287,351	3,316,713	88,969,092
Amounts receivable on reverse repurchase agreements	24,317,675	2,715,674	-	27,033,349
Loans and advances to banks	1,096,965	1,753,961	-	2,850,926
Investment securities	46,268,338	5,529,218	-	51,797,556
Loans and advances to customers	79,358,543	82,205,751	18,929	161,583,223
Other financial assets	1,714,777	2,132,482	192,867	4,040,126
	168,121,326	164,624,437	3,528,509	336,274,272
Liabilities				
Amounts due to banks	5	260,483	14,206	274,694
Amounts due to customers	86,293,524	138,937,415	4,032,041	229,262,980
Debt securities issued	3,008,822	7,886,459	-	10,895,281
Other loans and borrowings	20,542,703	12,553,633	-	33,096,336
Subordinated debt	-	3,993,514	-	3,993,514
Other financial liabilities	2,727,626	208,569	17,199	2,953,394
	112,572,680	163,840,073	4,063,446	280,476,199
Other short-term contracts	-	671,931	(671,931)	-
Net position as of 31 December 2022	55,548,646	1,456,295	(1,206,868)	55,798,073
Commitments and contingent liabilities as of 31 December 2022	10,536,831	9,063,478	-	19,600,309
Total financial assets	120,035,396	112,619,697	1,630,080	234,285,173
Total financial liabilities	97,183,896	110,873,215	2,866,371	210,923,482
Other short-term contracts	-	(1,215,138)	1,215,138	-
Net position as of 31 December 2021	22,851,500	531,344	(21,153)	23,361,691
Commitments and contingent liabilities as of 31 December 2021	8,489,200	4,492,516	-	12,981,716

Freely convertible currencies represent mainly US dollar and Euro. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

37.3 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily bases. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 4% of certain obligations of the Bank denominated in Armenian drams and 18% on certain obligations of the Bank denominated in foreign currency (refer to note 15). The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia.

The indicators as of 31 December is as follows:

	Unaudited	
As of 31 December, these ratios were as follows:	**31 December 2022, %**	**31 December 2021, %**
N2/1- Total liquidity ratio (Highly liquid assets/ Total assets)	42.40	31.29
N2/2- Current liquidity ratio (Highly liquid assets /liabilities on demand)	143.94	161.04

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2022 based on contractual undiscounted repayment obligations. Refer to note 36 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams	**31 December 2022**					
	Demand and less than 1 month	**From 1 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total gross amount outflow**	**Carrying value**
Non-derivative financial liabilities						
Amounts due to banks	274,694	-	-	-	274,694	274,694
Amounts due to customers	112,543,835	73,826,180	49,780,602	30,636	236,181,253	229,262,980
Debt securities issued	-	5,493,021	6,352,770	-	11,845,791	10,895,281
Other loans and borrowings	1,270,797	5,232,073	22,619,258	11,275,987	40,398,115	33,096,336
Subordinated debt	17,855	336,549	1,417,240	5,317,400	7,089,044	3,993,514
Other financial liabilities	1,181,214	894,177	1,004,188	246,505	3,326,084	2,953,394
Total undiscounted non-derivative financial liabilities	115,288,395	85,782,000	81,174,058	16,870,528	299,114,981	280,476,199
Loan commitments and financial guarantees	494,010	6,414,636	11,691,501	1,000,162	19,600,309	19,600,309

In thousand Armenian drams	31 December 2021					
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying value
Non-derivative financial liabilities						
Amounts due to banks	1,411,011	-	-	-	1,411,011	1,410,385
Amounts payable on repurchase agreements	16,028,001	-	-	-	16,028,001	16,010,497
Amounts due to customers	51,819,624	57,268,307	50,814,465	11,589	159,913,985	153,009,627
Debt securities issued	-	364,077	6,077,699	-	6,441,776	5,822,097
Other loans and borrowings	249,868	2,120,240	22,288,248	8,958,297	33,616,653	27,607,361
Subordinated debt	23,914	408,681	6,487,497	-	6,920,092	4,872,881
Other financial liabilities	799,731	734,738	618,687	367,223	2,520,379	2,190,634
Total undiscounted non-derivative financial liabilities	70,332,149	60,896,043	86,286,596	9,337,109	226,851,897	210,923,482
Loan commitments and financial guarantees	312,968	2,940,380	9,011,581	716,787	12,981,716	12,981,716

37.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank of Armenia on internal control system;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the Bank to which they relate, with summaries submitted to the Board.

38 Reconciliation of liabilities arising from financing activities

The changes in the Bank's liabilities arising from financing activities can be classified as follows:

In thousand Armenian drams

	Subordinated debt	Other long-term borrowings	Lease liabilities	Dividend liabilities	Debt securities issued	Total
Carrying amount as of 31 December 2020	5,303,185	15,739,784	911,903	481,842	-	22,436,714
Proceeds	-	14,714,560	-	-	6,276,715	20,991,275
Repayments	-	(1,656,317)	(167,329)	(481,842)	-	(2,305,488)
Foreign currency translation	(430,813)	(1,362,158)	-	-	(475,756)	(2,268,727)
Other	509	171,492	81,019	571,000	21,138	845,158
Carrying amount as of 31 December 2021	4,872,881	27,607,361	825,593	571,000	5,822,097	39,698,932
Proceeds	-	15,019,845	-	-	6,802,140	21,821,985
Repayments	-	(7,063,900)	(217,961)	(571,000)	-	(7,852,861)
Foreign currency translation	(877,995)	(2,660,976)	-	-	(1,742,458)	(5,281,429)
Other	(1,372)	194,006	558,400	620,110	13,502	1,384,646
Carrying amount as of 31 December 2022	3,993,514	33,096,336	1,166,032	620,110	10,895,281	49,771,273

The "Other" line includes new leased liabilities and non-cash lease remeasurements. It also includes interest on accrued debt securities, other long-term borrowings, subordinated debts, and lease liabilities accrued but not yet paid. The Bank classifies accrued interest as cash flows from operating activities.

39 Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Armenia in supervising the Bank.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, polices and processes from the previous years.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 12%.

The minimal required total capital for banks is determined at AMD 30,000,000 thousand.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, and general reserve. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

As of 31 December 2022 and 2021 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

In thousand Armenian drams	Unaudited	
	31 December 2022	**31 December 2021**
Tier 1 capital	57,018,534	27,119,945
Tier 2 capital	7,757,242	7,411,734
Total regulatory capital	64,775,776	34,531,679
Risk-weighted assets	249,827,345	232,205,321
Capital adequacy ratio	25.93%	14.87%

The Bank has complied with all externally imposed capital requirements through the period.

40 Segment reporting

Operating segments

The Bank is organised on the basis of three main operating segments. These operating segments are monitored and strategic decisions are made on the basis of segment operating results.

Retail banking representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.

Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

Investment banking – representing financial instruments trading, structured financing, corporate leasing, and merger and acquisitions advice.

Transactions between the business segments are (on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital.) There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding items such as taxation and borrowings. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment information about these businesses is presented below.

In thousand Armenian drams	Retail banking	Corporate banking	Investment banking	Total
				2022
Net interest Income	1,646,855	2,653,368	5,293,878	9,594,101
Net non-interest income	23,923,938	10,162,919	(2,301,833)	31,785,024
Cross-segment income	(490,986)	565,605	(74,619)	-
Operating income	25,079,807	13,381,892	2,917,426	41,379,125
Impairment loss	(376,876)	(1,725,140)	(73,328)	(2,175,344)
Personnel expenses	(2,831,375)	(2,364,060)	(384,847)	(5,580,282)
Depreciation of property, equipment and amortization of intangible assets	(417,925)	(348,945)	(56,805)	(823,675)
Other general administrative expenses	(943,986)	(788,183)	(128,309)	(1,860,478)
Profit before tax	20,509,645	8,155,564	2,274,137	30,939,346
Income tax expense	(3,456,980)	(1,374,652)	(383,315)	(5,214,947)
Net profit	17,052,665	6,780,912	1,890,822	25,724,399
Segment assets	101,417,649	100,025,266	146,581,097	348,024,012
Interest earning financial assets	76,186,907	85,396,315	88,823,981	250,407,203
Interest bearing financial liabilities	171,354,407	94,998,424	10,895,280	277,248,111

In thousand Armenian drams	Retail banking	Corporate banking	Investment banking	Total
				2021
Net interest Income	1,268,826	2,982,416	2,215,693	6,466,935
Net non-interest income	781,270	745,957	261,067	1,788,294
Cross-segment income	319,524	(287,503)	(32,021)	-
Operating income	2,369,620	3,440,870	2,444,739	8,255,229
Impairment loss	(2,101,076)	16,701	(3,798)	(2,088,173)
Personnel expenses	(1,214,159)	(1,124,458)	(88,986)	(2,427,603)
Depreciation of property, equipment and amortization of intangible assets	(386,093)	(346,301)	(27,405)	(759,799)
Other general administrative expenses	(783,463)	(666,897)	(52,776)	(1,503,136)
Profit before tax	(2,115,171)	1,319,915	2,271,774	1,476,518
Income tax expense	499,229	(311,530)	(536,191)	(348,492)
Net profit	(1,615,942)	1,008,385	1,735,583	1,128,026
Segment assets	64,885,978	75,071,976	105,757,038	245,714,992
Interest earning financial assets	64,885,978	75,071,976	50,804,433	190,762,387
Interest bearing financial liabilities	114,944,451	60,224,114	35,998,158	211,166,723